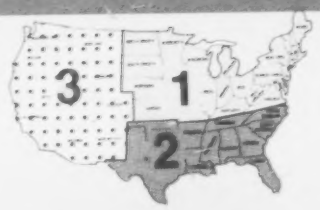
'87 Rank	'86 Rank	Company & Headquarters	Fleet Contact(s)	Co. Owned	Lessor(s)	# Cars	#Trucks & Vans	Total
89	**96**	**Gulf & Western, Inc. Madison, WI**	**John Simon**	**X**	**—**	**1,800**	**50**	**1,850**
90	83	Liberty Mutual Ins. Co. Madison, WI	Barbara Feinberg	X	—	1,816	11	1,827
91	**88**	**USF&G Insurance Baltimore, MD**	**James D. Meyers**	**—**	**In-house**	**1,800**	**26**	**1,826**
92	85	Montgomery Ward Chicago, IL	Roseann Neveitt	—	PH&H, GEC Flt. Mgmt. Svcs.*	122	1,681	1,803
93	**89**	**Bell & Howell Skokie, IL**	**Mike Winfield**	**—**	**Wheels, ARI**	**1,700**	**12**	**1,712**
94	93	General Mills Minneapolis, MN	Henry Paetzel Dick Livermore	X	—	1,542	109	1,651
95	**92**	**Eaton Corp. Cleveland, OH**	**Robert J. Wagner**	**—**	**LMV, GEC Flt. Mgmt. Svcs.***	**1,385**	**250**	**1,635**
96	99	Fireman's Fund Novato, CA	Sylvia Jones	X	—	1,586	45	1,631
97	**98**	**Lorillard, Inc. New York, NY**	**Sal J. Giacchi**	**—**	**GEC Flt.* Mgmt. Svcs.*, LendLease, PH&H**	**635**	**950**	**1,585**
98	97	Hallmark Cards Kansas City, MO	Debby Mize	X	—	1,500	75	1,575
99	**100**	**Hobart Corp. Troy, OH**	**Mark Welty, Dan Wray**	**—**	**GEC Flt. Mgmt. Svcs.***	**500**	**1,050**	**1,550**
100	36	Dresser Industries Dallas, TX	J.F. Snelling	—	Sovran Leasing	983	550	1,533
		TOTALS				**231,146**	**177,864**	**409,010**

Bold faced companies are new to this year's list.

D & K Financial, Kerr Leasing, and Gelco Fleet Management Services were integrated to form GEC Fleet Management Services.

USED CARS

The following are average car prices ending December 23, 1987. Prices are based on wholesale activity at major dealers across the country. They are divided into three zones as indicated on the accompanying map. These averages are calculated electronically in IBM machines. They are based on clean cars only. Proper allowance should be made for upgrading sharp cars and proper deduction taken for fair cars. Automatic transmissions have been included in the averages of all models. This information is published in *Automotive Fleet* by special permission of Automotive Market Report.



Model	AVERAGE AUCTION PRICE Zone 1	Zone 2	Zone 3
86 AMC ALLIANCE			
Sdn 4 Dr L Series	3801	3839	3725
85 AMC ALLIANCE			
Sdn 4 Dr L Series	2961	2991	2902
86 AMC ENCORE			
Sdn 5-Dr S Series	3776	3814	3701
85 AMC ENCORE			
Sdn 5-Dr S Series	2934	2963	2874
86 BUICK SKYHAWK			
Cust Coupe	5219	5271	5114
Cust Sdn	5299	5352	5193
86 BUICK CENTURY			
Cust Sdn	6798	6867	6664
85 BUICK CENTURY			
Cust Sdn	5460	5514	5351
86 BUICK SKYLARK			
Cust Sdn	6802	6871	6667
85 BUICK SKYLARK			
Cust Sdn	4120	4161	4038
86 BUICK SOMERSET REGAL			
Coupe	6863	6931	6726
86 BUICK RIVIERA			
Coupe	11,232	11,344	11,008
85 BUICK RIVIERA			
Coupe	9248	9340	9064
86 BUICK LE SABRE			
Cust Sdn	8299	8382	8134
85 BUICK LE SABRE			
Cust Sdn	6701	6768	6567
86 CADILLAC DE VILLE			
Cpe	12,776	12,903	12,520
Sdn	12,942	13,072	12,685
85 CADILLAC DE VILLE			
Cpe	9911	10,010	9713
Sdn	9911	10,010	9713
86 CADILLAC SEVILLE			
Sdn	15,830	16,050	15,573
85 CADILLAC SEVILLE			
Sdn	13,634	13,771	13,363
86 CHEVY CHEVETTE			
Htchbk 4 Dr	3430	3463	3362
85 CHEVY CHEVETTE			
Htchbk 4 Dr	2733	2761	2679
86 CHEVY CAMARO			
Cpe	7173	7246	7030
85 CHEVY CAMARO			
Cpe	6029	6089	5908
86 CHEVY CAVALIER			
Sdn	4884	4932	4786
85 CHEVY CAVALIER			
Sdn	3916	3956	3839
86 CHEVY CELEBRITY			
Sdn	6306	6368	6180
85 CHEVY CELEBRITY			
Sdn	4897	4947	4800
86 CHEVY CAPRICE			
Sdn	6732	6799	6597
85 CHEVY CAPRICE			
Sdn	6298	6361	6172
86 CHRYSLER LE BARON			
Cpe	6247	6310	6123
Sdn	6309	6373	6184
85 CHRYSLER LE BARON			
Cpe	5058	5108	4958
Sdn	5089	5142	4989
86 CHRYSLER FIFTH AVENUE			
Sdn	9547	9643	9357
85 CHRYSLER FIFTH AVENUE			
Sdn	7830	7908	7671
86 DODGE OMNI			
Htchbk 4 Dr	3894	3932	3815
85 DODGE OMNI			
Htchbk 4 Dr	3071	3102	3009
86 DODGE ARIES			
Sdn	4870	4920	4772
85 DODGE ARIES			
Sdn	3696	3732	3621
86 DODGE DIPLOMAT			
Sln Sdn	5535	5591	5424
85 DODGE DIPLOMAT			
Sln Sdn	4284	4326	4197
86 DODGE LANCER			
Sdn	6294	6359	6169
86 DODGE 600			
Sdn	6008	6067	5887
85 DODGE 600			
Sdn	4596	4642	4504
86 FORD ESCORT			
Htchbk 4 Dr L Series	4120	4164	4039
85 FORD ESCORT			
Htchbk 4 Dr L Series	3250	3281	3185
86 FORD MUSTANG			
LX-4 Cpe	5766	5823	5650
85 FORD MUSTANG			
LX-4 Cpe	4716	4762	4622
86 FORD TAURUS			
GL Sdn 4 Dr	8123	8206	7962
86 FORD TEMPO			
GL Sdn 4 Dr	5110	5161	5008
85 FORD TEMPO			
GL Sdn 4 Dr	3973	4013	3894
86 FORD LTD			
Sdn	5283	5336	5177
85 FORD LTD			
Sdn	4136	4177	4052
86 FORD CROWN VIC			
Sdn	8862	8951	8686
85 FORD CROWN VIC			
Sdn	7283	7356	7137
86 FORD THUNDERBIRD			
Cpe	7582	7657	7431
85 FORD THUNDERBIRD			
Cpe	6262	6323	6135
86 LINCOLN CONTINENTAL			
Sdn	14,983	15,133	14,683
Town Car Sdn	13,643	13,779	13,369
Mark VII Cpe	14,608	14,752	14,316
85 LINCOLN CONTINENTAL			
Sdn	12,275	12,397	12,029
Town Car Sdn	11,084	11,194	10,863
Mark VII Cpe	12,023	12,143	11,782
86 MERCURY LYNX			
L Htchbk 4 Dr	4164	4205	4080
85 MERCURY LYNX			
L Htchbk 4 Dr	3280	3314	3215
86 MERCURY COUGAR			
Cpe LS	8435	8520	8266
85 MERCURY COUGAR			
Cpe LS	6929	6998	6791
86 MERCURY TOPAZ			
GS Sdn 4 Dr	5295	5348	5190
85 MERCURY TOPAZ			
GS Sdn 4 Dr	4102	4144	4021
86 MERCURY MARQUIS			
Sdn	5381	5435	5274
85 MERCURY MARQUIS			
Sdn	4192	4235	4108
86 MERCURY GRAND MARQUIS			
Sdn	9460	9555	9271
85 MERCURY GRAND MARQUIS			
Sdn	7727	7805	7573
86 OLDS FIRENZA			
Sdn	5293	5352	5193
85 OLDS FIRENZA			
Sdn	4147	4188	4064
86 OLDS CIERA			
L Coupe	6726	6794	6592
L Sdn	6806	6875	6671
85 OLDS CIERA			
LS Cpe	5387	5440	5279
LS Sdn	5455	5509	5346
86 OLDS CALAIS			
Sdn	6828	6896	6692
86 OLDS CUTLASS SUPREME			
Cpe	7385	7458	7236
Sdn	7195	7267	7052
85 OLDS CUTLASS SUPREME			
Sdn	5935	5994	5815
86 OLDS DELTA 98			
Rgcy Sdn	10,019	10,120	9820
85 OLDS DELTA 98			
Rgcy Sdn	8161	8242	7997
86 PLYMOUTH HORIZON			
Htchbk 4 Dr	3892	3930	3813
85 PLYMOUTH HORIZON			
Htchbk 4 Dr	3067	3098	3006
86 PLYMOUTH RELIANT			
Sdn	4851	4898	4753
85 PLYMOUTH RELIANT			
Sdn	3697	3733	3623
86 PLYMOUTH CARAVELLE			
SE Sdn	5812	5870	5695
86 PLYMOUTH GRAN FURY			
Salon Sdn	5570	5625	5459
85 PLYMOUTH GRAN FURY			
Salon Sdn	4429	4472	4339
86 PONTIAC T-1000			
Sdn	3465	3501	3396
85 PONTIAC T-1000			
Sdn	2790	2817	2733
86 PONTIAC SUNBIRD			
Sdn	5216	5268	5111
85 PONTIAC SUNBIRD			
Sdn	4113	4155	4032
86 PONTIAC 6000			
Sdn	6595	6661	6464
85 PONTIAC 6000			
Sdn	5142	5193	5038
86 PONTIAC GRAND AM			
Sdn	7012	7081	6870
86 PONTIAC FIREBIRD			
Cpe	7263	7336	7118
85 PONTIAC FIREBIRD			
Cpe	6100	6162	5978
86 PONTIAC BONNEVILLE			
Sdn	6912	6981	6774
85 PONTIAC BONNEVILLE			
Sdn	5383	5437	5275
86 PONTIAC GRAND PRIX			
Cpe	7266	7340	7122
85 PONTIAC GRAND PRIX			
Cpe	6057	6119	5937
86 PONTIAC PARISIENNE			
Sdn	8256	8339	8093
85 PONTIAC PARISIENNE			
Sdn	6532	6597	6401
86 NISSAN SENTRA			
Std Sdn 2 Dr	3967	4008	3889
86 NISSAN STANZA			
GL Htch 4 Dr	6692	6757	6557
86 NISSAN MAXIMA			
SE Sdn	10,309	10,412	10,102
85 NISSAN SENTRA			
Std Sdn 2 Dr	3168	3200	3106
85 NISSAN STANZA			
XE Htchbk 4 Dr	4894	4943	4795
85 NISSAN MAXIMA			
SE Sdn	8591	8677	8419
86 TOYOTA COROLLA			
Sdn 4 Dr Dlx	5778	5835	5663
86 TOYOTA CAMRY			
Sdn 4 Dr Dlx	7934	8014	7776
86 TOYOTA CRESSIDA			
Lux Sdn	12,007	12,127	11,766
85 TOYOTA COROLLA			
Sdn 4 Dr Dlx	4845	4893	4749
85 TOYOTA CAMRY			
Dlx Sdn 4 Dr	6483	6549	6353
85 TOYOTA CRESSIDA			
Sdn	9455	9549	9266
86 VOLKSWAGEN JETTA			
Sdn 4 Dr	6812	6880	6676
85 VOLKSWAGEN JETTA			
Sdn 4 Dr	5665	5721	5549

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GAS PRICES

UNLEADED

City	Cost Per Gallon Unleaded Full-Serve	Self-Serve
Juneau, AK	149.9	134.4
Pine Bluff, AR	114.6	80.9
Phoenix, AZ	124.2	87.6
Pasadena, CA	122.4	83.4
Glenwood Springs, CO	134.5	118.2
Washington, D.C.	136.5	100.7
Key West, FL	133.4	102.4
Honolulu, HI	173.7	134.0
Chicago, IL	132.4	97.3
Boston, MA	108.1	100.9
Iron Mountain, MI	103.4	97.9
Springfield, MO	108.4	77.6
Fargo, ND	123.9	91.6
Albuquerque, NM	118.4	100.4
Sioux Falls, SD	103.9	77.4

Survey conducted during the first five working days of January 1988.
Supplied by Runzheimer International, Runzheimer Park, Rochester, WI.

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march 1988

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CAR AND LIGHT TRUCK FLEET AND LEASING MANAGEMENT MAGAZINE

MAINTENANCE

- Facility Construction
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Maximizing Resale New Walk-in Van

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CAR AND LIGHT TRUCK FLEET AND LEASING MANAGEMENT MAGAZINE

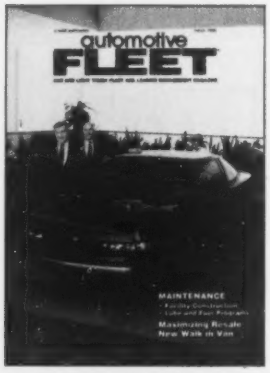
BOBIT PUBLISHING

MARCH 1988
VOL. 27, NO. 5

Influencing the management of 4,584,000 cars and 1,970,000 light trucks and vans in business, leasing, rental, utility, government, police and taxi fleets.

p. 24

p. 51



On the cover: Oldsmobile's Cutlass Supreme International was runner up among domestic automobiles as *Motor Trend's* 1988 Car of the Year. Presenting Oldsmobile's GM-10 version is Chuck Dietrick, director of national fleet sales, and William Lane, GM vice president and general manager, Oldsmobile Division.

Features

24 **Mobile, On-Site Preventive Maintenance**
Various companies are providing an alternative type of maintenance package, bringing PM to fleets.

33 **Michigan's New Fleet Operations and Repair Facility**
With centralization arose the need for a new maintenance facility for Michigan's Motor Transport Division.

37 **Fleetshare Commercial Fueling System**
Sears Payment Systems' new tracking and reporting system.

44 **Advantages of Above-Ground Service Lifts**
Is the above-ground lift the lift of the future?

51 **Maximizing Used-Car Values**
McCullagh Leasing offers advice on optimizing resale returns.

Truck Section

50 **Utilimaster Aeromate**
An all-new mini walk-in van combining full-size performance and function in a compact design.

63 **GM Electric Van**
Fleet professionals at United Airlines recognize the potential.

68 **CNG: The Ideal Transportation Fuel**
To Niagara Mohawk, a New York utility, compressed natural gas is a promising alternative to gasoline.

72 **Light Truck and Van News**

Departments

Letters	11	Used-Car Prices	82
Industry News	12	New Products	84
Hotline	21	Gas Prices	85
Light Truck and Van News	72	Classified	86
Personnel Personals	74	Calendar	87
Leasing	76	Ad Index	87
Rental	78	Editorial	88

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States Seek Higher Fuel Taxes; Enact Seat-Belt Laws

Increased travel that is straining highway systems has prompted the expectation that as many as 34 state legislatures will seek more federal highway funds through raising motor fuel taxes in 1988, according to the Highway Users Federation.

Of 33 states that proposed increased highway-user revenues in 1987, only 14 succeeded. They include Delaware, Maryland, Mississippi, Missouri, Montana, Nevada, New Mexico, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, Utah, and Wisconsin. By January 1988, state gasoline taxes averaged 14.4 cents per gallon in addition to the nine-cents-per-gallon federal gasoline tax.

The push for increases in state fuel taxes results from record travel growth during a period of repeated cutbacks in the federal-aided highway program. While traffic has increased by nearly 20 percent since 1983, the Gramm-Rudman-Hollings law and other cutbacks have reduced federal highway expenditures to $11.8 billion, 10.5-percent less than the 1986 program level.

In the traffic safety area, as of Jan. 31, 1988, 31 states have enacted safety belt use laws. Legislative efforts to raise the 55-mph speed limit are expected in 16 states, as permitted by federal legislation last year, when 38 states raised the speed limit to 65 mph on rural interstate highways. States that do not have seat belt use laws are Alabama, Alaska, Arizona, Arkansas, Delaware, Georgia, Kentucky, Maine, Massachusetts, Mississippi, Nebraska, New Hampshire, North Dakota, Rhode Island, South Carolina, South Dakota, Vermont, West Virginia, and Wyoming. In addition, 24 states are expected to consider tougher laws on drunk driving, and 21 states will review safety belt use regulations up for reenactment.

State Motor Fuel Tax Rates (cents per gallon)

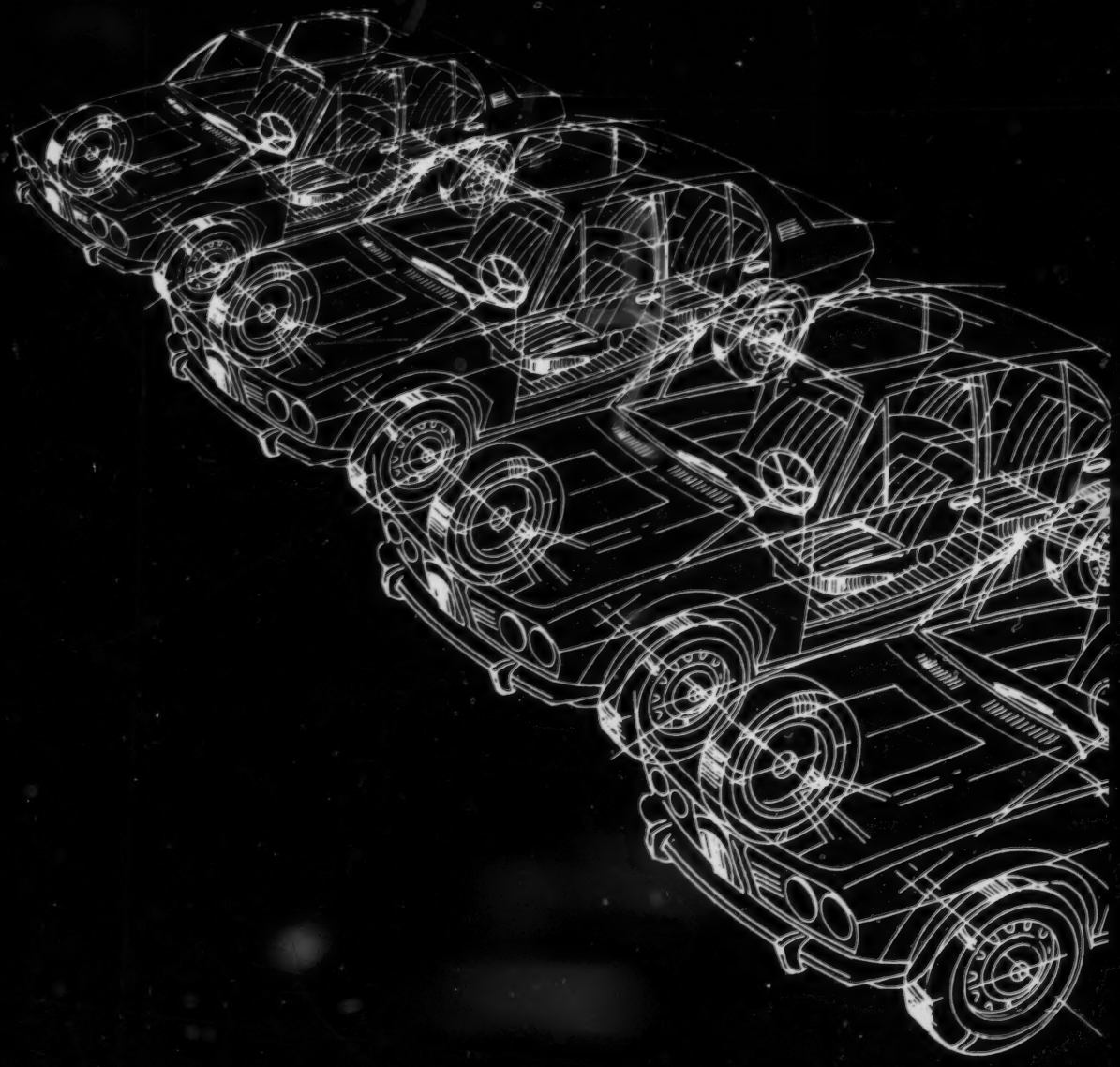
STATE	GASOLINE	DIESEL	GASOHOL	ADDED TAX (%)	LOCAL OPTION
Alabama	13	14	12		L
Alaska	8	8	0		
Arizona	16	16	16		
Arkansas	13.5	12.5	13.5		
California	9	9	9	6	L
Colorado	18	20.5	18		
Connecticut	19	19	18	2	
Delaware	16	16	16		
D.C.	15.5	15.5	15.5		
/*Florida	9.7	9.7	9.7		L
Georgia	7.5	7.5	7.5	3	
Hawaii	11	11	11	4	L
Idaho	14.5	14.5	10.5		
Illinois	13	15.5	13	6	L
Indiana	14	15	14	5	
Iowa	16	18.5	15		
*Kansas	11	13	11	4	
*Kentucky	15	12	15		
Louisiana	16	16	16	1	
/Maine	14	14	13		
Maryland	18.5	18.5	18.5		
*Massachusetts	11	11	11		
*Michigan	15	15	15	4	
*Minnesota	17	17	15		
/Mississippi	17	17	17		L
Missouri	11	11	11		
Montana	20	20	20		
/*Nebraska	18.3	18.3	15.3		
Nevada	16	17	16		
New Hampshire	14	14	14		
/New Jersey	8	11	2		
New Mexico	14	16	6		L
New York	8	10	8	6.75	L
/*North Carolina	15.8	15.8	15.8		
North Dakota	17	17	13		
*Ohio	14.7	14.7	14.7		
Oklahoma	16	13	16		
/Oregon	14	14	14		L
Pennsylvania	12	12	12	6	
*Rhode Island	15	15	15		
South Carolina	15	15	9		
South Dakota	13	13	11		L
Tennessee	17	16	13		L
Texas	15	15	11		
Utah	19	19	19		
Vermont	13	14	13		
Virginia	17.5	16	17.5		L
Washington	18	18	16.2		
*West Virginia	15.35	15.35	15.35		
*Wisconsin	20	20	20		
Wyoming	8	8	8		

* Variable tax expressed in cents per gallon.
/ Updated since last Highway Users Federation chart January 1, 1988.

MERCHANDISING

In today's used-car market, it's not enough to know product inside and out. One must also know, and anticipate, the market. In this article, Jim Culotta of McCullagh Leasing offers advice on maximizing the return on used vehicles.

Maximizing Used-Car Values



McCULLAGH LEASING

30803 Little Mack Avenue
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J. A. Culotta
President

Dear Fleet Manager:

McCullagh Leasing wants you to have the following essay on Used Car Values because we sense that the importance of resale is being obscured by other issues in today's environment. The enormous amount of attention being given today to up-front economies and financing can falsely suggest that these questions are exhaustive. Acquisition costs and financing are important - to be sure. But by themselves they do not guarantee an adequate fleet program.

The basic point of the enclosed essay is this: Fleet Managers have responsibility for managing the cost of usership - that is, the net cost of having vehicles available to do their company's work. Since the cost of usership is the net difference between acquisition cost and resale value, then each factor has equal power to drive the net cost up or down.

The importance of resale value, then, can hardly be overstated. It seems to me, though, that even when resale is addressed, it is frequently reduced to speculation about large economic issues that impact vehicle values - the availability and cost of fuel, import quotas, government regulations, etc.

Each of us knows from experience that energy costs or odometer regulations can indeed make or break a particular vehicle in the resale market. But speculation is fraught with risks. So I suggest that - while keeping abreast of major economic and market trends - Fleet Managers focus on more controllable and manageable issues affecting resale value - issues like replacement cycles, equipment levels and maintenance programs.

This is by no means the final word on remerchandising fleet vehicles. Nor do I expect you to agree with all that I say. My purpose will be achieved if this essay invites a discussion that leads to a more balanced appreciation of the issues - and contributes to a greater recognition of the importance of all that your job involves.

Sincerely,

J. A. Culotta
President
McCullagh Leasing

The purpose of this article is not so much to prognosticate or forecast the future of the used-car market, as to suggest a method of preparing for the continued uncertainties the industry will face as it attempts to maximize the return on used vehicles.

This has never been an easy topic and, certainly, marketing used vehicles has never been a job for the fainthearted. But nevertheless, there once was a time when, if you stayed involved in the market long enough, you could figure it out. You could eventually learn its cycles and its seasons.

Today, it's not enough to know cars and trucks inside and out, such as which engines, equipment, or even what colors do best in any given part of the country. It's not enough any longer to know *product*. One must also know, and be able to anticipate, the *market*.

And here we have the makeup of a dilemma: On the one hand, we have a product array that has gotten incredibly more complicated over the years and, with over 300 different makes and models, has become more and more the domain of engineers.

On the other hand, the value of this product is a function of a market that is driven by forces that are equally elusive: the value of the dollar, likelihood of recession or inflation, dramatic fluctuations in the cost of money, foreign competition, manufacturers' marketing strategies, protectionism, and, of course, the continuing uncertainty about the availability of affordable fuel.

My point is that the area of used vehicles and resale value is no longer an easily-managed function of the fleet manager's total job. It's bigger than all outdoors and, it's a very complex affair, where one "blip" in the larger market can dramatically impact our best-laid plans.

What happened to the old days, when, with a reasonable amount of effort, you could get your hands around the situation?

Jim Culotta, president of McCullagh Leasing.

"The area of used vehicles and resale value is no longer an easily-managed function of the fleet manager's total job."

The oil embargo of 1973-1974 set into motion a sequence of events that's still evolving. We have a market still in the throes of adapting to a new global economy and we don't know yet who will be the winners and losers.

Consequently, the old guidelines, formulas, and ratios that applied in the past, aren't necessarily very good guidelines anymore. And if George Bush will excuse the expression, forecasting has become something of a voodoo science.

When the oil supply was shut off, we saw fuel costs skyrocket, increasing 220 percent between 1974 and 1980! Since fuel represents about 35 percent of a fleet's operating cost, the expense of running our fleets increased dramatically during this period. To reduce these costs, fleet managers, like everyone else, started looking for higher m.p.g. vehicles.

The rise in fuel costs ushered in a period of spectacular inflation that took the prices of vehicles from an approximate average of $4,000 in 1970 to $5,300 in 1975 and $7,000 in 1980. Today, it's almost $13,000. That's a 79-percent increase in only seven years.

Most of us bit the bullet and downsized into four-cylinders and took our lumps. The used-car market was disastrous, but once we cycled through it, we said, things would wash out. (Ironically, the used-car disaster would have been worse *without* the spiralling inflation of that period. With new-car prices jumping 79 percent between 1975 and 1982, used-car prices were able to rise also, thereby mitigating the overall impact on the net holding cost.)

Meanwhile, another force took hold to affect used-vehicle values. As consumers experienced "sticker shock," they began to question whether they were getting their money's worth. What resulted was a stream of legislation that has radically changed the vehicle business and the used-vehicle market. CAFE standards were introduced entailing huge expenses to the manufacturers through retooling and the development of new products. Consumer Protection Laws and Lemon Laws were enacted in many states to

safeguard buyers of new *and* used vehicles. Then, of course, came the federal odometer regulations, intended to eliminate the time-honored practice of tampering with, or "clocking," odometers.

As used vehicles began to reflect their real mileage, consumers backed off investing in a used car that had 50,000, 60,000, or 70,000 miles showing on the odometer. Net effect: odometer legislation eroded the demand for *typical*, higher mileage used fleet vehicles.

Consumers had been a conspicuous bunch in the '60s. In fact, the domestic manufacturers catered to conspicuous consumption. After the oil embargo, however, consumers wanted economical vehicles that the domestics didn't have. So consumers turned in increasing numbers to imports, and domestic manufacturers began to yield market share. A new Catch-22 began to take shape. The Big Three faced, and still do, a sizable over-capacity problem and had the choice of either cutting production or selling more cars.

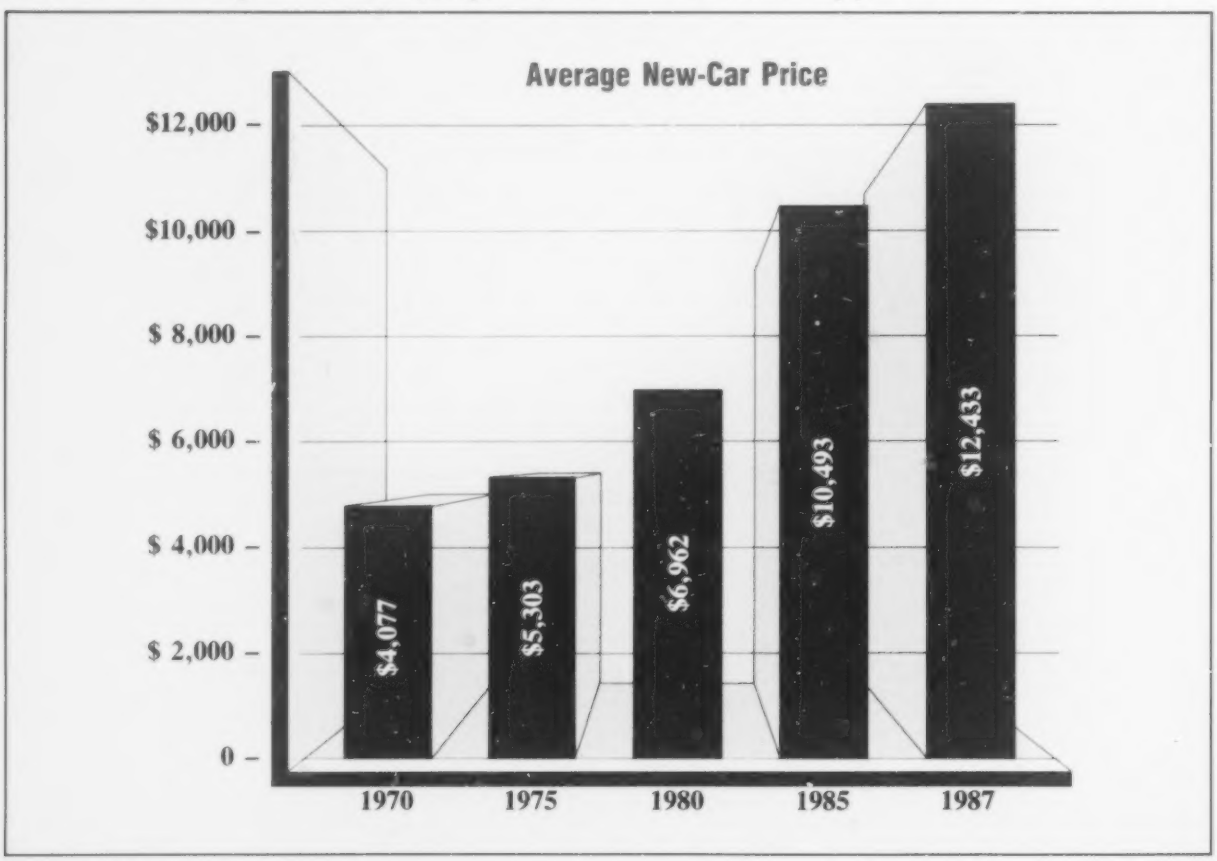
In order to sell the cars they were capable of producing, new marketing strategies were introduced: discounts, extended warranties, rebates, and, the most important of all — low-rate financing.

The war was on. Through their new marketing strategies, the Big Three have actually been mortgaging the future — shifting new car buyers from *future* purchases to *present* purchases. And they shifted late-model *used*-car buyers to *new*-car buyers.

But the new-car inventory moved. After all, a new car with the appropriate rebate and financing could be bought for about the same monthly payment as a year-old car financed at a local bank rate. Plus, you got a car with a much better warranty to boot.

But, as you know, these factory programs not only moved new-car inventories, they also forced used-car prices down. So once again, the value of our fleet vehicles was jeopardized by the larger market forces at work. Many of these forces are still at work. Incentives, rebates, and cheap financing are still being offered. In fact, many think they have become institutionalized. And by the way, we haven't heard the last on odometer tampering. New legislation is still being written to further tighten the noose around would-be clockers. As a result, high-mileage units are more prevalent and harder to move, even at bargain prices.

Meanwhile, all those buyers who were lured into buying or leasing new cars two or three years ago are now ready to turn them. The supply of late-model cars is enormous.



The manufacturers themselves have become major used-car sellers and are putting an estimated 500,000 used vehicles from their leasing and financing programs into the market each year. Net result: further downward pressure on used-car prices.

All of these trends, with their roots in the Energy Crisis, may not be trends anymore, but rather the *new* forces driving a *new* market. It's an environment where forecasting is dangerous work.

So what do we do in the meantime? Do we engage in this voodoo science of forecasting and base *today's* fleet decisions on what *we think* the market will value *tomorrow*?

Or, should we focus on this amazing array of products instead?

Before we do either, let's step back and look at the big picture.

What are we trying to do, and how do we accomplish our goals? What we're trying to do is simply to get the greatest residual return on our used vehicles. This is one thing that all of us who operate fleets have in common: we manufacture used cars. Viewed from this perspective, our goal should be to manufacture the *best* used vehicle product possible — i.e., the most *value*-laden used vehicle.

Anyone responsible for company vehicles knows that the up-front acquisition cost is not the *real*, or *final*, cost of a company fleet. The more interesting figure is the *holding cost* of a vehicle, which is the original acquisition cost net of the final resale or residual value. "Holding Cost" is the real bottom line figure to watch. And that figure is going up, too.

Ed Bobit's editorial in the January, 1988 issue of *Automotive Fleet*, voiced amazement (which I share) over the results of NAFA's latest New Car Acquisition Survey. In this survey, Initial Acquisition Cost was ranked Most Important, followed by Serviceability and Economy of Operation. Resale Value was ranked *fourth*. But as Bobit says, "Residual is the name of the game." Why then shouldn't it properly be ranked first? I'll tell you why. Because it's the wild card in the deck. It is the most variable, but controllable, of all fleet cost elements. Obviously, acquisition costs have been going up and up — and that's important. But there's very little we can do about that. Besides, to quote Bobit again, "anyone worth his (or her) salt is going to conclude (a new vehicle) purchase within $25 comparatively from dealer to dealer." So there's no mystery in "Acquisition Cost."

And although serviceability, maintenance, and operating costs are also very significant factors, there's not much mystery there, either. Quality has improved, warranties are the best in history, and EPA figures are good.

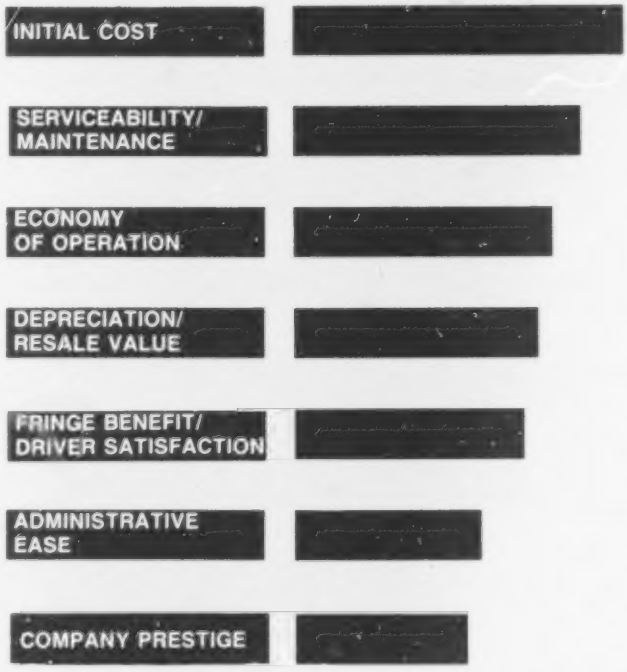
So *resale* — the management of residual values — should be recognized as the most significant controllable variable in the Holding Cost equation. I would like to take a few minutes to review the things we *can* do to *enhance* resale value of our fleet vehicles and thereby keep bottom-line holding costs under control.

- First, is the selection process. The first priority is to make sure that the vehicles you put in your fleet can do the job they're intended to do. This becomes even more critical in specing out trucks, where the various configurations can get very complicated.

To do the job right, you need to be totally current on the makes and models available, the packages being offered, and compatibility of equipment. Usually, you'll need some help from a manufacturer's

Factors Influencing Vehicle Acquisition

As part of NAFA's New Car Acquisition Survey, respondents were asked to rank in order of importance seven factors they use for fleet car selection.



Source: National Association of Fleet Administrators.

rep or your leasing company.

• Second, is recognizing that the purchase of vehicles involves a risk. This risk is tied to a vehicle's future value and we should minimize the risk by having a *good mix* in our inventory.

While it's true that today's "hot models" are generally tomorrow's hot resale items, don't put all of your eggs in one basket. In uncertain times, and these times are indeed uncertain, it's best to hedge your bets and spread the risk over a variety of makes and models.

• Third, is age and mileage. Not many fleets turn their vehicles over as one-year-old models unless mileage is unusually high, say 35,000 to 40,000 miles. One-year-old models depreciate between 20 percent and 35 percent. Most fleet vehicles are sold as two-year-old models, which have depreciated between 40 and 60 percent. Vehicles in service for three years average between 65- and 75-percent depreciation.

Keep in mind that "one year old," "two year old," etc., is measured from the model introduction date. (So, for example, buying a model-year closeout special in August or September is seldom a "bargain" since you're buying a year-old car from a resale standpoint.) Now, there's no economic advantage to holding fleet automobiles longer than three years. However, age alone cannot decide a replacement policy. It's age *and* mileage.

We all know that federal odometer regulations have had a direct impact on the resale of vehicles. Nowadays, it appears that 50,000 miles is the magic number. More miles than that and used-vehicle values begin to drop dramatically.

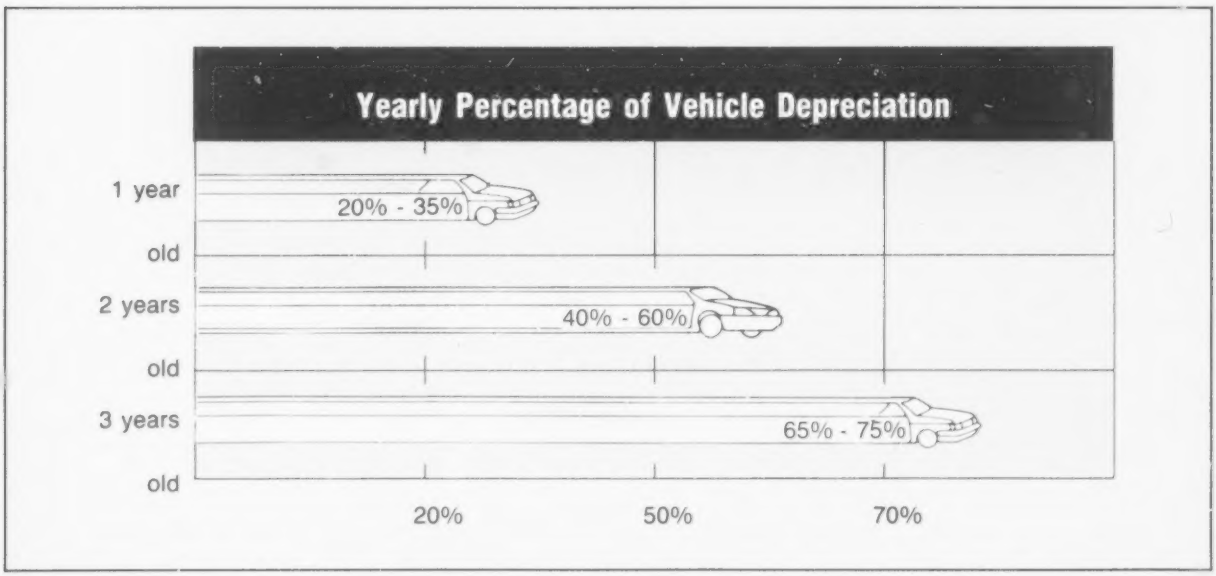
Now, the market is gradually adjusting to the fact that used vehicles have more miles on them than they used to. (Well, the cars have the same number of miles, it's just that the odometers read higher.) Gradually, there will be buyer acceptance of 55,000-, 60,000-, and 70,000-mile units, especially with the manufacturers' new, extended warranties.

Nevertheless, maximum resale value is gained when units are replaced before the 50,000-mile "psychological limit" is reached. The national average on commercial fleet automobiles is currently 22,000 miles per year. This means that the optimum replacement cycle is about 30 months. I believe that a fleet policy built around a 30-month replacement cycle can, by and large, avoid the negative down side in the used-car market due to high mileage.

• The fourth important aspect to consider in minimizing holding cost is equipment. What types of equipment help move a used car?

The answer, I think, is "the right configuration of options and equipment." By this I mean two things. First, that the equipment level is *right* for the type of car. Secondly, by "right configuration" I mean that certain options go together, which buyers of used cars expect to see together, such as tilt, cruise, *and* interval wipers; FM stereo *and* cassette, or power windows *and* locks. The manufacturers have recognized this, of course, and more and more often options are available only as part of a total package. By and large, certain pieces of equipment pay for themselves at resale, and should almost always be included on your vehicles.

• Fifth, is the condition of the vehicle. Obviously a clean, well-cared-for machine brings more, much more, than a similar unit in rough condition. So the condition of the vehicle is critical, too. But "condition" nowadays goes beyond the cosmetics of paint and upholstery,



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